

ADDISON FIRE DEPARTMENT AND  
EMERGENCY MEDICAL SERVICE

AUDIT REPORT

MARCH 31, 2008

## Auditing Procedures Report V1.04

Reset Form

Email

Issued under Public Act 2 of 1968, as amended.

Unit Name	ADDISON FIRE DEPARTMENT AND EMERGENCY	County	LENAWEE	Type	OTHER	MuniCode	
Opinion Date-Use Calendar	Aug 13, 2008	Audit Submitted-Use Calendar	Aug 18, 2008	Fiscal Year-Use Drop List	2008		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

- ☒ 1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
- ☒ 2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
- ☐ 3. Were the local unit's actual expenditures within the amounts authorized in the budget?
- ☒ 4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
- ☒ 5. Did the local unit adopt a budget for all required funds?
- ☒ 6. Was a public hearing on the budget held in accordance with State statute?
- ☒ 7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
- ☒ 8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
- ☒ 9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
- ☒ 10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
- ☒ 11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
- ☒ 12. Is the local unit free of repeated reported deficiencies from previous years?
- ☒ 13. Is the audit opinion unqualified? 14. If not, what type of opinion is it?
- ☒ 15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
- ☒ 16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
- ☒ 17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
- ☒ 18. Are there reported deficiencies? ☒ 19. If so, was it attached to the audit report?

General Fund Revenue: \$ 755,160.00

General Fund Expenditure: \$ 641,221.00

Major Fund Deficit Amount: \$ 0.00

General Fund Balance: \$ 580,746.00

Governmental Activities  
Long-Term Debt (see  
instructions): \$ 24,650.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Greg	Last Name	Bailey	Ten Digit License Number			1101022915		
CPA Street Address	479 E Chicago St PO Box 21	City	Jonesville	State	MI	Zip Code	49250	Telephone	+1 (517) 849-2410
CPA Firm Name	Bailey, Hodshire & Company	Unit's Street Address	319 E Main Street	City	Addison	LU Zip	49220		

## CONTENTS

INDEPENDENT AUDITOR'S REPORT .....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	2 - 5
BASIC FINANCIAL STATEMENTS	
<u>Government-Wide Financial Statements</u>	
Statement of Net Assets .....	6
Statement of Activities .....	7
<u>Fund Financial Statements</u>	
Balance Sheet - Governmental Funds .....	8
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets .....	9
Statement of Revenue, Expenditures Changes in Fund Balances - Governmental Funds .....	10 - 11
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	12
NOTES TO THE FINANCIAL STATEMENTS .....	13 - 20
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund .....	21 - 22

# Bailey, Hodshire & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

479 E. CHICAGO STREET  
P.O. BOX 215  
JONESVILLE, MI 49250

PHONE: (517) 849-2410  
FAX: (517) 849-2493  
E-MAIL: BAILEYHODSHIRE@SBCGLOBAL.NET

## INDEPENDENT AUDITOR'S REPORT

Addison Fire Department and Emergency Medical Service  
Addison, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Addison Fire Department and Emergency Medical Service (the "Department") as of and for the year ended March 31, 2008, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Addison Fire Department and Emergency Medical Service as of March 31, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2-5 and 21-22, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Bailey, Hodshire + Company, P.C.*  
Jonesville, Michigan  
August 13, 2008

## MANAGEMENT'S DISCUSSION AND ANALYSIS

# ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE

---

Management's Discussion and Analysis  
March 31, 2008

This section of Addison Fire Department and Emergency Medical Service's financial report presents our discussion and analysis of the Department's financial performance during the fiscal year ended March 31, 2008. It is best read in conjunction with the Department's financial statements that follow this section.

## **Using This Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Department financially as a whole. The *government-wide financial statements* provide information about the activities of the entire Department, presenting both an aggregate view of the Department's finances and a longer-term view of those finances. The *fund financial statements* provide the next level of detail by telling how services were financed in the short-term as well as what remains for future spending.

## **Reporting the Department as a Whole**

One of the most important questions asked about the Department is "As a whole, what is the Department's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the Department's financial statements, report information on the Department as a whole and its activities in a way that helps you answer this question. We prepared these statements to include *all* assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenue and expenses regardless of when cash is received or paid.

These two statements report the Department's *net assets* - - the difference between assets and liabilities, as reported in the Statement of Net Assets - - as one way to measure the Department's financial health, or *financial position*. Over time, increases or decreases in the Department's net assets - - as reported in the Statement of Activities - - are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the Department's operating results. However, the Department's goal is to provide services to the public, not to generate profits as commercial entities do. One must consider many other nonfinancial factors to assess the overall health of the Department.

## **Reporting the Department's Most Significant Funds**

The Department's fund financial statements provide detailed information about the Department's most significant funds - - not the Department as a whole. Some funds are required to be established by State law and by bond covenants. However, the Department may establish other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

Governmental fund reporting focuses on showing how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. They are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Department's operations and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial

ADDISON FIRE DEPARTMENT  
AND EMERGENCY MEDICAL SERVICE

Management's Discussion and Analysis  
March 31, 2008

resources that can be spent in the near future to finance the Department's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation.

***The Department as a Whole***

The following table provides a summary of the Department's net assets as of the end of the current and prior year:

**TABLE 1 - NET ASSETS**

	<u>2007</u>	<u>2008</u>
Assets		
Current Assets	\$ 487,425	\$ 597,930
Noncurrent Assets	<u>1,785,990</u>	<u>1,686,201</u>
Total Assets	<u>\$ 2,273,415</u>	<u>\$ 2,284,131</u>
Liabilities		
Current Liabilities	\$ 68,213	\$ 29,339
Noncurrent Liabilities	<u>25,647</u>	<u>12,495</u>
Total Liabilities	<u>\$ 93,860</u>	<u>\$ 41,834</u>
Net Assets		
Invested in Capital Assets - Net of Related Debt	\$ 1,726,268	\$ 1,686,201
Restricted	0	0
Unrestricted	<u>453,287</u>	<u>556,096</u>
Total Net Assets	<u>\$ 2,179,555</u>	<u>\$ 2,242,297</u>
Total Liabilities and Net Assets	<u>\$ 2,273,415</u>	<u>\$ 2,284,131</u>

The Department's net assets were \$2,242,297 at March 31, 2008, an increase of 2.88% from the prior year. Invested in capital assets, net of related debt totaling \$1,686,201 compares the original cost, less depreciation, of the Department's capital assets to long-term debt used to finance the acquisition of those assets. Restricted net assets (if any) are reported separately to show legal constraints from debt covenants or enabling legislation that limit the Department's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$556,096) was unrestricted. The \$556,096 represents the *accumulated* results of all past year's operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of operations for the Department as a whole for the current and prior year are summarized in the following table:

**ADDISON FIRE DEPARTMENT  
AND EMERGENCY MEDICAL SERVICE**

Management's Discussion and Analysis  
March 31, 2008

**TABLE 2 - CHANGES IN NET ASSETS**

	<u>2007</u>	<u>2008</u>
Program Revenue		
Charges for Services	\$ 697,480	\$ 719,041
Operating Grants and Contributions	25	2,298
Capital Grants and Contributions	30,000	0
General Revenue		
Unrestricted Investment Earnings	3,196	12,934
Other	<u>29,510</u>	<u>20,887</u>
Total Revenue	<u>\$ 760,211</u>	<u>\$ 755,160</u>
Expenses		
Public Safety - Fire & Ambulance	\$ 717,727	\$ 691,051
Interest on Long-Term Debt	<u>2,831</u>	<u>1,367</u>
Total Expenses	<u>\$ 720,558</u>	<u>\$ 692,418</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 39,653</u>	<u>\$ 62,742</u>

The cost of all our governmental activities this year was \$692,418. These activities were completely funded by the municipalities who benefited from the programs (\$719,041).

The Department experienced an increase in net assets of \$62,742 for the current year. The change in net assets differs from the change in fund balance, and a reconciliation appears on page 12 of the financial statements.

**The Department's Funds**

As we noted earlier, the Department uses funds to help it control and manage money for certain purposes. Looking at funds helps the reader consider whether the Department is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Department's overall financial health. At March 31, 2008, the governmental funds reported a fund balance of \$580,746, which is an increase of \$113,939 from last year.

**General Fund Budgetary Highlights**

Due to change in personnel, the budget was not amended at year end to ensure that expenditures would not exceed appropriations. Total expenditures did not exceed the total budget appropriation; however, line item budgets were not revised. Future budgets will be amended to ensure that line item expenditures do not exceed appropriations. A schedule showing the Department's budget amounts compared with amounts actually received and paid is provided in the required supplemental information on pages 21-22 of the financial statements

**Capital Asset and Debt Administration**

At March 31, 2008, the Department had \$1,686,201 (net of depreciation) invested in capital assets that include land, buildings, vehicles, and equipment. This amounts represents a net decrease (including additions, disposals, and depreciation) of \$99,789.



ADDISON FIRE DEPARTMENT  
AND EMERGENCY MEDICAL SERVICE

Management's Discussion and Analysis  
March 31, 2008

**Capital Asset and Debt Administration (continued)**

Capital assets at year-end were as follows:

	<u>2007</u>	<u>2008</u>
Land	\$ 22,450	\$ 22,450
Buildings and Improvements	756,228	765,312
Furniture and Equipment	310,494	310,494
Vehicles	1,496,613	1,496,613
Less: Accumulated Depreciation	<u>(799,795)</u>	<u>(908,668)</u>
Total Capital Assets, net of depreciation	<u>\$ 1,785,990</u>	<u>\$ 1,686,201</u>

At March 31, 2008, the Department had an outstanding note payable of \$12,155 from the purchase of a fire truck in the 2003-04 fiscal year, and compensated absences payable of \$12,495.

**Factors Bearing on the Department's Future**

With the changing economic environment, the Department continues to face the challenge of maintaining the services we are able to provide today. With the rising costs of doing business (especially fuel, insurance, wages, and training), coupled with the declining revenue sharing, it will be difficult to balance income to expenditures.

At the recommendation of the Fire Chief, the Board has approved repairs to the 1992 tanker (at a cost of up to \$140,000, and the purchase of a new ambulance (around \$180,000). There is also a need to replace the two brush trucks (approximately \$67,000 each), but not in the near future. Additionally, a new pumper will need to be purchased within the next 5 years. This is part of the reason to repair/overhaul the tanker (\$140,000) instead of replacing it (\$575,000), because its use is less than the pumper, and the need for the pumper is greater at this time.

**Contacting the Department's Management**

This report is designed to give an overview of the financial conditions of the Addison Fire Department and Emergency Medical Service. If you have any questions about this report or need further information, please contact the Fire Chief at 319 E. Main Street, Addison, MI 49220, telephone (517) 547-6776 or (517) 937-7940.

## BASIC FINANCIAL STATEMENTS

**ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE**  
**STATEMENT OF NET ASSETS**  
**MARCH 31, 2008**

**ASSETS**

**Current Assets**

Cash and Cash Equivalents	\$ 522,712
Accounts Receivable:	
Municipal Ambulance Agreements	33,314
Ambulance Fees	<u>41,904</u>
Total Current Assets	<u>\$ 597,930</u>

**Noncurrent Assets**

**Capital Assets:**

Land	\$ 22,450
Buildings and Improvements	765,312
Furniture and Equipment	310,494
Vehicles	1,496,613
Less: Accumulated Depreciation	<u>(908,668)</u>
Total Noncurrent Assets	<u>\$ 1,686,201</u>
Total Assets	<u><u>\$ 2,284,131</u></u>

**LIABILITIES**

**Current Liabilities**

Accounts Payable	\$ 5,180
Accrued Payroll	12,004
Current Portion of Long-Term Debt	<u>12,155</u>
Total Current Liabilities	<u>\$ 29,339</u>

**Noncurrent Liabilities**

Notes Payable less Current Portion	\$ 0
Compensated Absences	<u>12,495</u>
Total Noncurrent Liabilities	<u>\$ 12,495</u>
Total Liabilities	<u>\$ 41,834</u>

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	\$ 1,686,201
Unrestricted	<u>556,096</u>
Total Net Assets	<u>\$ 2,242,297</u>
Total Liabilities and Net Assets	<u><u>\$ 2,284,131</u></u>

The accompanying notes are an integral part of this statement.

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2008

Functions/Programs	Program Revenues				Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Public Safety-Fire & Ambulance	\$ 691,051	\$ 719,041	\$ 2,298	\$ 0	\$ 30,288
Interest on Long-Term Debt	<u>1,367</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,367)</u>
Total Governmental Activities	\$ <u>692,418</u>	\$ <u>719,041</u>	\$ <u>2,298</u>	\$ <u>0</u>	\$ <u>28,921</u>
General Revenues:					
Unrestricted Investment Earnings					\$ 12,934
Other					<u>20,887</u>
Total General Revenues					\$ <u>33,821</u>
CHANGE IN NET ASSETS					\$ 62,742
NET ASSETS - Beginning					<u>2,179,555</u>
NET ASSETS - Ending					<u>\$ 2,242,297</u>

The accompanying notes are an integral part of this statement.

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE  
BALANCE SHEET - GOVERNMENTAL FUNDS  
MARCH 31, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 522,712	\$ 0	\$ 522,712
Accounts Receivable:			
Municipal Ambulance Agreements	33,314	0	33,314
Ambulance and Fire Fees	<u>41,904</u>	<u>0</u>	<u>41,904</u>
Total Assets	<u>\$ 597,930</u>	<u>\$ 0</u>	<u>\$ 597,930</u>
<b>LIABILITIES AND FUND BALANCE</b>			
Liabilities			
Accounts Payable	\$ 5,180	\$ 0	\$ 5,180
Accrued Payroll	<u>12,004</u>	<u>0</u>	<u>12,004</u>
Total Liabilities	<u>\$ 17,184</u>	<u>\$ 0</u>	<u>\$ 17,184</u>
Fund Balances			
Unreserved and Undesignated	<u>\$ 580,746</u>	<u>\$ 0</u>	<u>\$ 580,746</u>
Total Liabilities and Fund Balances	<u>\$ 597,930</u>	<u>\$ 0</u>	<u>\$ 597,930</u>

The accompanying notes are an integral part of this statement.

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE  
Reconciliation of Fund Balance on the Balance Sheet for Governmental Funds to  
Net Assets of Governmental Activities on the Statement of Net Assets  
March 31, 2008

Fund Balances - Total Governmental Funds \$ 580,746

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial  
resources and therefore are not reported in the funds.

Add: Capital Assets 2,594,869

Deduct: Accumulated Depreciation (908,668)

Certain liabilities are not due and payable in the current period  
and therefore are not reported in the funds.

Deduct: Notes payable (12,155)

Deduct: Compensated Absences (12,495)

Net Assets - Governmental Activities \$ 2,242,297

The accompanying notes are an integral part of this statement.

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE  
STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED MARCH 31, 2008

	General <u>Fund</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
REVENUE			
Fire:			
Municipal Fire Agreements:			
Village of Addison	\$ 21,348	\$ 0	\$ 21,348
Township of Rollin	69,534	0	69,534
Township of Wheatland	30,954	0	30,954
Township of Woodstock	103,768	0	103,768
Village of Cement City	3,500	0	3,500
Interest	4,753	0	4,753
Miscellaneous	<u>10,410</u>	<u>0</u>	<u>10,410</u>
Total Fire Revenue	<u>\$ 244,267</u>	<u>\$ 0</u>	<u>\$ 244,267</u>
Ambulance:			
Municipal Ambulance Agreements	\$ 316,443	\$ 0	\$ 316,443
Ambulance Fees	173,494	0	173,494
Interest	8,181	0	8,181
Miscellaneous	10,477	0	10,477
Donations	<u>2,298</u>	<u>0</u>	<u>2,298</u>
Total Ambulance Revenue	<u>\$ 510,893</u>	<u>\$ 0</u>	<u>\$ 510,893</u>
Total Revenue	<u>\$ 755,160</u>	<u>\$ 0</u>	<u>\$ 755,160</u>
EXPENDITURES			
Fire:			
Wages	\$ 84,000	\$ 0	\$ 84,000
Payroll taxes	5,200	0	5,200
Retirement	6,000	0	6,000
Operating supplies	562	0	562
Office supplies	2,088	0	2,088
Vehicle expense	5,605	0	5,605
Rent and utilities	15,999	0	15,999
Equipment maintenance	9,630	0	9,630
Insurance	25,462	0	25,462
Minor equipment	4,250	0	4,250
Training	2,127	0	2,127
Professional fees	625	0	625
Uniforms	1,318	0	1,318
Miscellaneous	7,521	0	7,521
Buildings	2,137	0	2,137
Capital Outlay	<u>4,542</u>	<u>0</u>	<u>4,542</u>
Total fire expenditures	<u>\$ 177,066</u>	<u>\$ 0</u>	<u>\$ 177,066</u>

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE  
STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED MARCH 31, 2008

(continued)

	General Fund	Other Governmental Funds	Total Governmental Funds
Ambulance:			
Wages	\$ 288,888	\$ 0	\$ 288,888
Payroll taxes	24,777	0	24,777
Retirement	7,521	0	7,521
Operating supplies	3,346	0	3,346
Office supplies	2,201	0	2,201
Vehicle expense	13,174	0	13,174
Billing service	5,586	0	5,586
Rent and utilities	16,203	0	16,203
Equipment maintenance	6,499	0	6,499
Insurance	32,623	0	32,623
Minor equipment	6	0	6
Training	2,963	0	2,963
Professional fees	625	0	625
Uniforms	1,232	0	1,232
Miscellaneous	3,708	0	3,708
Building maintenance	1,327	0	1,327
Capital outlay	<u>4,542</u>	<u>0</u>	<u>4,542</u>
Total ambulance expenditures	<u>\$ 415,221</u>	<u>\$ 0</u>	<u>\$ 415,221</u>
Total expenditures	<u>\$ 592,287</u>	<u>\$ 0</u>	<u>\$ 592,287</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>\$ 162,873</u>	<u>\$ 0</u>	<u>\$ 162,873</u>
OTHER FINANCING SOURCES (USES)			
Payments on Fire Truck Loan	<u>\$ (48,934)</u>	<u>\$ 0</u>	<u>\$ (48,934)</u>
EXCESS OF REVENUE AND OTHER FINANCING SOURCES (USES) OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ 113,939</u>	<u>\$ 0</u>	<u>\$ 113,939</u>
FUND BALANCES - APRIL 1, 2007	<u>466,807</u>	<u>0</u>	<u>466,807</u>
FUND BALANCES - MARCH 31, 2008	<u><u>\$ 580,746</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 580,746</u></u>

The accompanying notes are an integral part of this statement.



ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE  
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund  
Balance of Governmental Funds to the Statement of Activities  
For the Year Ended March 31, 2008

Net Changes in Fund Balance - Total Governmental Funds	\$ 113,939
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: Capital Outlay	9,084
Deduct: Depreciation Expense	(108,873)
Repayment of debt principal is an expenditure in the governmental funds, but not in the statement of activities.	47,567
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Add: Decrease in accrual for compensated absences	<u>1,025</u>
Change in Net Assets - Governmental Activities	<u>\$ 62,742</u>

The accompanying notes are an integral part of this statement.

## NOTES TO THE FINANCIAL STATEMENTS

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Addison Fire Department and Emergency Medical Service was formed by municipalities in the Addison, Michigan area to provide fire protection and ambulance services. It is governed by a board made up of representatives from each of the municipalities.

The accounting policies of Addison Fire Department and Emergency Medical Service conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Department (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

The following is a summary of significant accounting policies used by Addison Fire Department and Emergency Medical Service:

**Reporting Entity**

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Addison Fire Department and Emergency Medical Service consists of all funds, departments, boards and agencies that are not legally separate from the Department.

Component units are legally separate organizations for which the Department is financially accountable. Component units may also include organizations that are fiscally dependent on the Department in that the Department approves their budget, the issuance of their debt, or the levying of taxes. The Department has no component units.

**Government-Wide and Fund Financial Statements**

Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the Department as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Department's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Unrestricted investment income, and other items not properly included among program revenues are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Department.

Fund Financial Statements - Fund financial statements report detailed information about the Department. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Measurement Focus and Basis of Accounting**

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Municipal ambulance agreements are recognized as revenue in the year for which the related property taxes are levied by the participating townships. Municipal fire agreements and ambulance fees are recorded as revenue when they are invoiced. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is to be collected with the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Under the modified accrual basis, municipal ambulance and fire agreements, ambulance fees, interest, and grants are considered to be both measurable and available at fiscal year-end. Grants received before the eligibility requirements are met are recorded as deferred revenue.

**Financial Statement Presentation**

The Department uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Department functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

The Department reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund.

**Assets, Liabilities, and Net Assets**

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less.

Capital Assets - General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Department maintains a capitalization threshold of \$2,500. The Department does not possess any infrastructure. Improvements are capitalized; the cost of

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings & Improvements	50 years
Furniture & Equipment	5 - 15 years
Vehicles	10 - 25 years

Compensated Absences - It is the Department's policy to permit management employees to accumulate earned but unused vacation and bereavement pay benefits. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation, retirement, or death.

Long-Term Obligations - In the government-wide financial statements, all payables, accrued liabilities and long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt retirement expenditures.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Budgetary Information - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The legal level of budgetary control has been established by the Department at the line-item level. Any budgetary modifications may only be made by resolution of the Department. All annual appropriations lapse at fiscal year end.

During the year ended March 31, 2008, the Department incurred expenditures in excess of the amount appropriated. These variances are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
FIRE			
Office Supplies	\$ 2,000	\$ 2,088	\$ 88
Rent and Utilities	15,500	15,999	499
Equipment Maintenance	7,000	9,630	2,630
Insurance	21,500	25,462	3,962

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
FIRE (continued)			
Uniforms	1,000	1,318	318
Miscellaneous	3,000	7,521	4,521
Building Maintenance	0	2,137	2,137
AMBULANCE			
Vehicle Expense	10,000	13,174	3,174
Billing Service	5,500	5,586	86
Rent and Utilities	15,000	16,203	1,203
Equipment Maintenance	4,500	6,499	1,999
Insurance	25,000	32,623	7,623
Training	2,750	2,963	213
Miscellaneous	2,000	3,708	1,708

**NOTE 3 - DEPOSITS AND INVESTMENTS**

State statutes authorize the Department to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Department's investment policy makes no further limitation on investments. As of March 31, 2008, the Department's deposits are in accordance with statutory authority.

The Department's deposits and investments are subject to several types of risk, which are examined in more detail as follows:

*Credit Risk* - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Department minimizes credit risk by limiting investments to the types of securities allowed by State law. The Department has no policy that would further limits its investment choices.

*Concentration of Credit Risk* - The Department places no limit on the amount the Department may invest in any one issuer.

*Custodial Credit Risk* - Custodial credit risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Department does not have a formal policy for custodial credit risk. At March 31, 2008, the carrying amount of the Department's bank deposits was \$522,712 and the bank's balance was \$525,325. Of the total bank balance, \$123,087 was covered by federal depository insurance and \$402,238 was uninsured. The Department believes that due to the dollar amounts of cash deposits and the

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**NOTE 3 - DEPOSITS AND INVESTMENTS (continued)**

limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Department evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

*Interest Rate Risk* - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Department has no policy that specifically identifies interest rate risk.

*Foreign Currency Risk* - The Department is not authorized to invest in investments which have this type of risk.

**NOTE 4 - RECEIVABLES**

Receivables at March 31, 2008, consist of municipal ambulance agreements, ambulance fees, and fire fees. Municipal ambulance agreements are considered collectible in full due to the collectibility of the related property taxes. Ambulance and fire fees receivable are shown as net of estimated uncollectible amounts.

A summary of the principal items of receivables follows:

Municipal Ambulance Agreements	\$ 33,314
Ambulance and Fire Fees	<u>41,904</u>
	<u>\$ 75,218</u>

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended March 31, 2008, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated				
Land	\$ 22,450	\$ 0	\$ 0	\$ 22,450
Total	<u>\$ 22,450</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 22,450</u>
Capital assets being depreciated				
Buildings & Improvements	\$ 756,228	\$ 9,084	\$ 0	\$ 765,312
Furniture & Equipment	310,494	0	0	310,494
Vehicles	<u>1,496,613</u>	<u>0</u>	<u>0</u>	<u>1,496,613</u>
Subtotal	<u>\$ 2,563,335</u>	<u>\$ 9,084</u>	<u>\$ 0</u>	<u>\$ 2,572,419</u>
Less accumulated depreciation for				
Buildings & Improvements	\$ (44,455)	\$ (15,306)	\$ 0	\$ (59,761)
Furniture & Equipment	(138,004)	(24,769)	0	(162,773)
Vehicles	<u>(617,336)</u>	<u>(68,798)</u>	<u>0</u>	<u>(686,134)</u>
Subtotal	<u>\$ (799,795)</u>	<u>\$ (108,873)</u>	<u>\$ 0</u>	<u>\$ (908,668)</u>
Total	<u>\$ 1,763,540</u>	<u>\$ (99,789)</u>	<u>\$ 0</u>	<u>\$ 1,663,751</u>
Total capital assets, net	<u>\$ 1,785,990</u>	<u>\$ (99,789)</u>	<u>\$ 0</u>	<u>\$ 1,686,201</u>

**ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008**

**NOTE 6 - LONG-TERM DEBT**

The Department purchased a 2003 Pierce Fire Truck on June 27, 2003 for \$370,420. The truck was partially financed through \$225,000 note with United Bank & Trust. The note requires quarterly payments of \$12,233.50 including interest at 3.0% through July 1, 2008. The fire truck serves as collateral for the loan.

The following is a summary of changes in long-term debt for the year ended March 31, 2008:

<u>Description and purpose</u>	<u>Balance March 31, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance March 31, 2008</u>	<u>Due Within One Year</u>
Compensated Absences	\$ 13,520	\$ 13,123	\$ 14,148	\$ 12,495	\$ 0
Note payable	<u>59,722</u>	<u>0</u>	<u>47,567</u>	<u>12,155</u>	<u>12,155</u>
	<u>\$ 73,242</u>	<u>\$ 13,123</u>	<u>\$ 61,715</u>	<u>\$ 24,650</u>	<u>\$ 12,155</u>

The amounts needed to retire long-term debt at March 31, 2008, including \$79 interest, are as follows:

	<u>Note Payable</u>
Year ended March 31, 2009	<u>\$ 12,234</u>

**NOTE 7 - MUNICIPAL FIRE AND AMBULANCE AGREEMENTS**

Addison Fire Department and Emergency Medical Service provides fire service and ambulance service to five local municipalities. The fire service agreement calls for cost sharing to be billed quarterly, based on a percentage of annual budgeted expenditures. The percentage is determined by the average number of fire alarms within each municipalities during the previous three years. The percentages used for the 2007-08 fiscal year were as follows:

Woodstock Township	47.00%
Rollin Township	31.50%
Wheatland Township	14.50%
Village of Addison	10.00% (minimum)
Village of Cement City	\$3,500 flat rate

For ambulance services, a millage of 1.0 mill (subject to Headlee rollback limitations) is levied in each of the three townships, voted specifically for provision of ambulance services by the Addison Fire Department and Emergency Medical Service. This revenue is recorded as Service Agreement Revenue in an amount equal to the total taxes levied, which was \$308,563 for tax year 2007. The Fire Department also receives a portion of a .40 mill ambulance levy in Hillsdale County, allocated by the Hillsdale County Commissioners (\$22,097 for the year).

**NOTE 8 - DEFINED BENEFIT PENSION PLAN**

**Plan Description**

The Fire Department participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Department of MERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary



**ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2008**

**NOTE 8 - DEFINED BENEFIT PENSION PLAN (continued)**

information. The report may be obtained by writing to the MERS, 447 N. Canal Road, Lansing, Michigan, 48917, or by calling (800) 767-6377.

**Funding Policy**

The Department is required to contribute at an actuarially determined rate designed to accumulate sufficient assets to pay benefits when due. The current requirement is 12.39% of covered wages. The contribution requirements of the Department are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by MERS. The contribution requirements of plan members, if any, are established and may be amended by the Department.

**Annual Pension Cost**

For the year ended March 31, 2008, the Fire Department's pension cost was \$13,521. The required contribution was determined as part of an actuarial valuation using the entry age normal actuarial method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases based on an age-related scale to reflect merit, longevity and promotions. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Fire Department's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis.

**Three-Year Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
3/31/06	\$ 14,266	100%	0
3/31/07	13,522	100%	0
3/31/08	13,521	100%	0

**Schedule of Funding Progress**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Liability (AAL) - Normal Cost</u>	<u>Assets in Excess of AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/05	\$ 27,843	\$ 34,866	\$ (7,023)	80%	\$ 128,008	5%
12/31/06	44,145	94,542	(50,397)	47%	128,098	39%
12/31/07	62,783	128,020	(65,237)	49%	138,706	47%

**NOTE 9 - RISK MANAGEMENT**

The Fire Department is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries, as well as medical benefits provided to employees. The Fire Department has purchased commercial insurance for each of these areas as risk. There has been no significant reduction in insurance coverages and settled claims have not exceeded the amount of insurance coverage in any of the past 3 years.

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**NOTE 10 - UNEMPLOYMENT TAXES**

The Fire Department is a reimbursing employer to the Michigan Unemployment Insurance Agency and as such is responsible to pay the Agency for those benefits paid and charged to its account. As of March 31, appropriate liabilities have been recorded for all claims paid by the Agency. However, no provision has been made for future payments that might result from claims in process or unfilled.

**NOTE 11 - COMMITMENTS**

At its March, 2008, meeting, the Fire Board approved the expenditure of up to \$140,000 for the re-conditioning of Fire Engine #12. The repairs will be done in the 2008-09 fiscal year, and will add approximately 15 years to the vehicle's useful life.

## REQUIRED SUPPLEMENTARY INFORMATION

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED MARCH 31, 2008

	Original Budget	Amended Budget	Actual	Actual Over (Under) Amended Budget
Beginning of Year Fund Balance	\$ 466,807	\$ 466,807	\$ 466,807	\$ 0
Resources (Inflows)				
Fire:				
Municipal Fire Agreements:				
Village of Addison	21,348	21,348	21,348	0
Township of Rollin	69,535	69,535	69,534	(1)
Township of Wheatland	30,954	30,954	30,954	0
Township of Woodstock	103,768	103,768	103,768	0
Village of Cement City	3,500	3,500	3,500	0
Interest	400	400	4,753	4,353
Miscellaneous	1,500	1,500	10,410	8,910
Ambulance:				
Municipal Ambulance Agreements	306,000	306,000	316,443	10,443
Ambulance Fees	149,000	149,000	173,494	24,494
Interest	1,500	1,500	8,181	6,681
Miscellaneous	8,700	8,700	10,477	1,777
Donations	<u>0</u>	<u>0</u>	<u>2,298</u>	<u>2,298</u>
Amounts Available for Appropriation	<u>\$ 1,163,012</u>	<u>\$ 1,163,012</u>	<u>\$ 1,221,967</u>	<u>\$ 58,955</u>
Charges to Appropriations (Outflows)				
Fire:				
Wages	\$ 84,000	\$ 84,000	\$ 84,000	\$ 0
Payroll Taxes	5,200	5,200	5,200	0
Retirement	6,000	6,000	6,000	0
Operating Supplies	2,500	2,500	562	(1,938)
Office Supplies	2,000	2,000	2,088	88
Vehicle Expense	6,500	6,500	5,605	(895)
Rent and Utilities	15,500	15,500	15,999	499
Equipment Maintenance	7,000	7,000	9,630	2,630
Insurance	21,500	21,500	25,462	3,962
Minor Equipment	6,500	6,500	4,250	(2,250)
Training	2,500	2,500	2,127	(373)
Professional Fees	1,000	1,000	625	(375)
Uniforms	1,000	1,000	1,318	318
Miscellaneous	3,000	3,000	7,521	4,521
Building Maintenance	0	0	2,137	2,137
Capital Outlay	5,000	5,000	4,542	(458)

ADDISON FIRE DEPARTMENT AND EMERGENCY MEDICAL SERVICE  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED MARCH 31, 2008

	Original Budget	Amended Budget	Actual	Actual Over (Under) Amended Budget
Ambulance:				
Wages	\$ 309,000	\$ 309,000	\$ 288,888	\$ (20,112)
Payroll Taxes	29,000	29,000	24,777	(4,223)
Retirement	18,500	18,500	7,521	(10,979)
Operating Supplies	4,000	4,000	3,346	(654)
Office Supplies	2,250	2,250	2,201	(49)
Vehicle Expense	10,000	10,000	13,174	3,174
Billing Service	5,500	5,500	5,586	86
Rent and Utilities	15,000	15,000	16,203	1,203
Equipment Maintenance	4,500	4,500	6,499	1,999
Insurance	25,000	25,000	32,623	7,623
Minor Equipment	2,000	2,000	6	(1,994)
Training	2,750	2,750	2,963	213
Professional Fees	3,000	3,000	625	(2,375)
Uniforms	1,700	1,700	1,232	(468)
Miscellaneous	2,000	2,000	3,708	1,708
Building Maintenance	3,000	3,000	1,327	(1,673)
Capital Outlay	28,000	28,000	4,542	(23,458)
Debt Service:				
Fire Truck Loan Payments	<u>50,000</u>	<u>50,000</u>	<u>48,934</u>	<u>(1,066)</u>
Total Charges to Appropriations	\$ <u>684,400</u>	\$ <u>684,400</u>	\$ <u>641,221</u>	\$ <u>(43,179)</u>
End of Year Fund Balance	\$ <u>478,612</u>	\$ <u>478,612</u>	\$ <u>580,746</u>	\$ <u>102,134</u>

The accompanying notes are an integral part of this statement.

# Bailey, Hodshire & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

479 E. CHICAGO STREET  
P.O. BOX 215  
JONESVILLE, MI 49250

PHONE: (517) 849-2410  
FAX: (517) 849-2493  
E-MAIL: BAILEYHODSHIRE@SBCGLOBAL.NET

August 13, 2008

Addison Fire Department and Emergency Medical Service  
Addison, Michigan

In planning and performing our audit of the financial statements of Addison Fire Department and Emergency Medical Service (the "Department") as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

#### Financial Statement Preparation

The Department does not have procedures in place to prepare financial statements in accordance with accounting principles generally accepted in the United States of America, including procedures to record accruals for revenue and expenditures, to track changes in capital assets, and to present required financial statement disclosures. We recognize the time and expense that would be required to obtain the necessary training and expertise to perform this task internally. We recommend that you continue to carefully review the draft financial statements and notes prepared by your external auditors prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We do consider the significant deficiency described above to be a material weakness.

In addition, we noted other matters involving the internal control and its operation that we did not consider to be significant deficiencies or material weaknesses, but are opportunities for improvement.

Annual Budget

The budget should be monitored carefully and amended when necessary to avoid any over-expenditure.

Investment Policy

The Department should adopt a revised investment policy to comply with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 40.

Capital Assets

There should be procedures in place for maintaining a listing of capital assets and the related depreciation.

Ambulance Revenue

There should be procedures in place to verify that ambulance revenue is complete - - that is, an invoice has been issued for every ambulance run.

This communication is intended solely for the information and use management, the Fire Board, and others within the Department, and is not intended to be and should not be used by anyone other than these specified parties.

*Bailey, Hodshire + Company, P.C.*  
Jonesville, Michigan  
August 13, 2008